



**City of Seattle
Office of City Auditor
Memorandum**

Date: September 11, 2002

To: Sue Taoka, Executive Director
Seattle Chinatown International District PDA

From: Susan Cohen, City Auditor

Subject: Village Square I Bond Payment Guaranty Agreement

The Office of City Auditor recently released its report on the Seattle Chinatown International District Preservation and Development Authority (SCIDPDA) Compliance Review. The report identifies two compliance issues related to the Village Square I Operating Reserve Account. The purpose of this memorandum is to provide information on an additional area of concern related to the Operating Reserve Account. Specifically, SCIDPDA did not make monthly deposits into the Operating Reserve Account when the account balance fell below the minimum amount identified in the Bond Payment Guaranty Agreement.

The Village Square I Bond Payment Guaranty Agreement between the City of Seattle and SCIDPDA requires the PDA to establish and maintain an Operating Reserve Account with a minimum balance of \$300,000. Section 5.7 of the agreement further states that the SCIDPDA “shall deposit into the Operating Reserve Account, on or before the twentieth (20th) day of each month, a minimum of one-twelfth (1/12th) of the amount budgeted for operating reserves for that year in the Pro Forma Budget.” One-twelfth (1/12th) of the \$10,145 annual Operating Reserve Account payment identified in the Village Square I Pro Forma Budget is approximately \$845.

The table below compares SCIDPDA’s actual deposits into the Operating Reserve Account to the Pro Forma Budget projections from January 1999 to July 2002.

SCIDPDA OPERATING RESERVE ACCOUNT DEPOSITS

	1999		2000		2001		2002	
	Actuals	Pro Forma	Actuals	Pro Forma	Actuals	Pro Forma	Actuals	Pro Forma
January	\$ -	\$ 845.42	\$ 643.72	\$ 845.42	\$ -	\$ 845.42	\$ 48.96	\$ 845.42
February	\$ -	\$ 845.42	\$ -	\$ 845.42	\$ 0.29	\$ 845.42	\$ 25.62	\$ 845.42
March	\$ -	\$ 845.42	\$ 59.99	\$ 845.42	\$ 3.68	\$ 845.42	\$ 23.55	\$ 845.42
April	\$ 9,585.00	\$ 845.42	\$ -	\$ 845.42	\$ 28,539.26	\$ 845.42	\$ 26.20	\$ 845.42
May	\$ -	\$ 845.42	\$ 1,965.93	\$ 845.42	\$ 48,426.30	\$ 845.42	\$ 24.77	\$ 845.42
June	\$ -	\$ 845.42	\$ -	\$ 845.42	\$ 580.21	\$ 845.42	\$ 280,024.44	\$ 845.42
July	\$ -	\$ 845.42	\$ -	\$ 845.42	\$ 537.56	\$ 845.42	\$ 22.64	\$ 845.42
August	\$ -	\$ 845.42	\$ -	\$ 845.42	\$ 530.46	\$ 845.42	N/A	\$ 845.42
September	\$ -	\$ 845.41	\$ -	\$ 845.41	\$ 296.81	\$ 845.41	N/A	\$ 845.41
October	\$ -	\$ 845.41	\$ 11,602.87	\$ 845.41	\$ 239.04	\$ 845.41	N/A	\$ 845.41
November	\$ 9,809.63	\$ 845.41	\$ -	\$ 845.41	\$ 202.47	\$ 845.41	N/A	\$ 845.41
December	\$ -	\$ 845.41	\$ 55,844.09	\$ 845.41	\$ 159.54	\$ 845.41	N/A	\$ 845.41
TOTALS	\$ 19,394.63	\$ 10,145.00	\$ 70,116.60	\$ 10,145.00	\$ 79,515.62	\$ 10,145.00	\$ 280,196.18	\$ 10,145.00

As shown in the preceding table, SCIDPDA's total annual deposits to the Operating Reserve Account exceeded the \$10,145 per year minimum required in the Pro Forma Budget. However, SCIDPDA did not consistently make scheduled monthly deposits into the Operating Reserve Account between January 1999 and July 2002.

SCIDPDA's lack of compliance with the monthly deposit schedule was not an issue until March 2000, when the Operating Reserve Account balance fell below the required \$300,000 minimum balance. The Bond Payment Guaranty Agreement clearly indicates that monthly payments are required if the Operating Reserve Account balance is below the \$300,000 minimum. The Agreement is less clear about the necessity of making monthly deposits if the Operating Reserve Account balance exceeds \$300,000. We are aware that SCIDPDA has expressed interest in working with the City's Department of Finance to determine if quarterly, advanced deposits into the Operating Reserve Account would meet the intent of the Agreement.

We believe that SCIDPDA and the Department of Finance should develop a memorandum of understanding to clarify the language and terms in the Bond Payment Guaranty Agreement related to the monthly deposits. SCIDPDA and the City should adhere either to the original payment schedule or a mutually developed, revised schedule that satisfies the minimum annual deposit requirements established in the Agreement.

If you have any questions or would like further information about this management letter or the SCIDPDA Compliance Review, please contact Dan Nygaard or me at 233-3801.

SC:DN:SB:tlb

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